

**SECTION 2**  
**CHAPTER 1**  
**GUIDELINES TO EVALUATE**  
**INTERNAL CONTROL OVER FINANCIAL REPORTING**

**BACKGROUND AND AUTHORITY**

Developing a comprehensive assessment plan to evaluate internal control over financial reporting is essential to effective implementation of revised OMB Circular A-123. Management is responsible for establishing and maintaining the operational effectiveness and design of the Department's internal control environment. This requires evaluating, testing, and correcting internal controls independent of auditors, including the OIG.

The revised OMB Circular A-123, *Management's Responsibility for Internal Control*, provides updated internal control standards and new specific requirements for conducting management's assessment of the effectiveness of internal control over financial reporting. (See OMB Circular A-123--Appendix A.).

The Department's framework for the assessment is *Standards for Internal Control in the Federal Government*, issued by the GAO in November 1999 (and outlined in Circular A-123). These standards, referred to as the "Green Book," are based on the *Integrated Framework of Internal Control* issued by the Committee of Sponsoring Organizations (COSO). The COSO framework is the most widely applied model in the United States. COSO defines internal control as a process designed to provide reasonable assurance of achieving objectives in three areas: (1) effective and efficient operations; (2) reliable financial reporting; (3) and compliance with applicable laws and regulations. The COSO framework presents five interrelated components, each spanning the three objectives: control environment, risk assessment, control activities, information and communication, and monitoring controls. COSO uses a matrix to illustrate the direct relationship between objectives, control components. The third dimension of the matrix is those units or activities that relate to internal control.

In conducting an evaluation of internal control over financial reporting, personnel should first plan and scope the evaluation. Effective planning is critical. Then, reviewers should document the significant controls, evaluate design and operating effectiveness of control over financial reporting, and document evaluation results. Management must identify and correct deficiencies and report on internal controls in management's written assertion.

## SECTION 2 CHAPTER 2 PLAN AND SCOPE OF THE EVALUATION

The key organizing and planning steps are:

- Establish the process
- Significant financial reports
- Materiality thresholds
- Significant accounts
- Relevant financial report assertions
- Major transaction cycles
- Link accounts and transaction cycles
- Establish overall organizational approach

### ESTABLISH THE PROCESS

There is a difference between the overall Federal Managers' Financial Integrity Act of 1982 (FMFIA) assurance statement that the Department has been issuing since 1983 and will continue to issue and the assessment of internal controls for financial reporting required by the 2004 revision to OMB Circular A-123. The overall FMFIA assurance statement addresses the three overall objectives of internal control: effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The assurance statement on internal control is a subset of the existing FMFIA assurance statement. It requires management to specifically document the process and methodology used to evaluate the operating effectiveness of internal control.

**Determine the Overall Approach: A Top-Down Focus.** Under A-123, the support for management's assurance statement should not begin in independent review areas that eventually work their way up the chain of command. Instead, the Department will meet the strengthened monitoring requirements through a top-down approach focusing on the assurance at the Departmentwide level. This approach begins with the Department's significant consolidated financial reports and works back to the key processes, controls, and supporting documentation. This approach also focuses resources on the items most material and most at risk to the Department's financial reporting.

**Organizational Structure.** DOI has established an integrated organizational structure to implement the Internal Control Program. This structure starts with the Secretary descends to the program assistant secretary, to the bureau director, and finally to the program manager. Roles and responsibilities of key components of the Internal Control Program are described below.

### Roles and Responsibilities.

Senior Management Council (SMC) - within DOI, the responsibilities of the Senior Management Council are implemented by the DOI Internal Control and Audit Follow-up Council which is chaired by the Assistant Secretary-Policy, Management and Budget and is comprised of all program assistant secretaries, the Solicitor, the Inspector General (ex officio), Deputy Assistant Secretary for Business Management and Wildland Fire, the Chief Information Officer, and Senior Procurement Executive. The Council provides senior-level oversight of the Internal

Control and Audit Follow-Up programs, resolves issues related to both programs, and decides reporting issues for the Department's Annual Performance and Accountability Report (PAR). Specifically, the council will:

- Ensure DOI's commitment to an appropriate internal control environment;
- Approve DOI's implementation plan for assessing and reporting on internal controls over financial reporting;
- Assess and monitor correction of deficiencies in internal control;
- Identify and ensure correction of systemic weaknesses;
- Review and approve management's annual assertion on effectiveness of internal controls over financial reporting;
- Recommend to the Assistant Secretary-Policy, Management and Budget which control deficiencies are material to disclose in the annual FMFIA assurance statement and PAR;
- Oversee implementation of corrective actions related to material weaknesses; and
- Determine when sufficient action has been taken to declare a reportable condition or material weakness corrected.

Senior Assessment Team (SAT) – The duties of the Senior Assessment Team as defined in Circular A-123 are assigned to the DOI Management Initiatives Team (MIT) which is chaired by the Assistant Secretary Policy, Management and Budget and comprised primarily of Deputy Assistant Secretaries and Bureau Deputy Directors. Duties of the MIT in implementing the Circular are to:

- Ensure assessment objectives are clearly communicated throughout Interior;
- Ensure adequate funding and resources are made available to comply with the new requirements of the revised Circular;
- Ensure assessments are planned, conducted, documented and reported upon in a thorough, effective, and timely manner;
- Identify staff and/or secure contractors to perform assessments;
- Determine the scope of assessments and materiality thresholds in accordance with the requirements of the revised Circular; and
- Determine or approve assessment design and methodology for each entity and the Department.

Office of Financial Management (PFM) is responsible for: (a) Providing staff assistance to the AS/PMB and the Senior Management Council; (b) Recommending internal control policies and procedures; (c) Providing oversight and guidance to the bureaus/offices concerning the review, evaluation, and maintenance of effective controls; (d) managing, directing, and evaluating the Department's reporting under OMB Circulars A-123 and A-127, the FMFIA, the Federal Financial Management Improvement Act (FFMIA), and the Chief Financial Officers Act, as amended (CFO Act). PFM annually issues *Guidelines for Internal Control and Audit Follow-up Programs* providing that year's schedule of key actions.

DOI Assessment Teams – composed of bureau staff from each bureau assigned to test other bureau key controls and provide independent review. PFM is the project manager.

**Provide training.** Training should be developed and tailored to the level and type of involvement expected from participants in the process. Management, process owners, and those carrying out transaction cycles will need training applicable to their area of responsibility.

Appropriate training should be given to personnel whether involved in planning at a high level, preparing documentation, or testing controls.

**Development of standard templates for documentation.** Use standard templates, workpapers, and forms for documentation of all processes, testing, and conclusions to expedite the review and allow comparability of findings across the Department.

**Document the Plan and Methodology for the assessment.** The assessment of internal control over financial reporting should be documented as follows. This documentation should be readily available for review and should include appropriate representations from officials and personnel responsible for monitoring, improving, and assessing internal control.<sup>1</sup>

- The establishment of the senior assessment team, its authority and members
- Contracting actions if contractors are used to perform or assist in the assessment
- Communications with Interior's management and employees regarding the assessment
- Key decisions of the SAT
- The assessment methodology and guide, including:
  - The understanding obtained and the evaluation of the design of each component of the entity's internal control over financial reporting
  - The process used to determine significant accounts and disclosures and major classes of transactions, including determination of the locations or agency components at which testing was performed
  - The process and decisions supporting a test plan which forms the approach for evaluating all controls and possible contingencies for completing testing related to internal control over financial reporting (e.g., rotational testing schedule)
  - The reliance on the work of others, such as for cross-servicing entities or service organizations, and how the sufficiency of such work was determined
  - Other information that could affect management's certification of its internal control over financial reporting
- The assessment of internal control at the entity level (Refer to Addendum D)
- The assessment of internal control at the process, transaction, or application level (Refer to Exhibit 2 and Exhibit 3)
- The testing of controls and related results
- Identified deficiencies and their classifications
- The remediation plans and actions taken to correct identified deficiencies

**Establish a process to communicate and coordinate with the OIG.** The OIG is responsible for the audit of the Department's financial statements. Even if the OIG and any hired CPA firm are not performing an audit of Interior's internal control assessment, the OIG and the CPA firm are still required to evaluate and report on Interior's compliance with laws and regulations that include compliance with Circular A-123 and FMFIA. The auditor may rely in part on management's testing of internal control over financial reporting, so obtaining and incorporating the OIG and CPA firm's views of management's assessment plan provides the opportunity to design the evaluation in a way that enables the auditor to conduct a more efficient audit. In that same vein, it is prudent to integrate other control-related activities and determine internal assessments that may impact control objectives related to financial reporting.

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<sup>1</sup> Circular A-123, Appendix A, Section IV.B.

Though not a requirement, Interior's management may ask the auditor to provide an audit opinion on internal control over financial reporting. In that case, the auditor should be involved in key aspects of the process, starting in the planning phase. Also, access to the project calendar allows the auditor to maximize the efficiency of interviews and testing processes by attending those significant to their opinion. If Interior's management elects to receive such an audit opinion, Interior may adjust the "as of" reporting date of June 30 to coincide with the "as of" date of the audit opinion.<sup>2</sup>

**Establish standards for contract support personnel.** Ensure that any contractors used to perform any aspect of the assessment, such as preparing the assessment plan, documentation, or performing testing have the appropriate qualifications. It is best for such contracts to clearly define the scope of performance so the contractor's work may be reviewed before it is included in management's final assessment.

**Establish a basis to communicate, review, remedy, and obtain management concurrence.** Management is responsible for documenting the internal control over financial reporting even if documentation has been prepared by the senior assessment team or others. Establish a process for management to review and comment on the documentation, those conducting assessments to respond to management's comments, and management to indicate its final decision on the effectiveness of internal control over financial reporting based on the evidence. The senior assessment team should retain evidence of the review and approvals through signatures or electronic postings.

**Prepare a calendar.** Interviews and meetings with Department and bureau management and personnel should be scheduled as early as is feasible and then posted to a calendar that is maintained and accessible. This allows process owners adequate time to plan the interviews and meetings, and it enables delays in the assessment to be identified and corrected before affecting deadlines. Testing of monthly and quarterly financial reporting should be scheduled throughout the year to balance workloads. Refer to the memo *Guidelines for Internal Control and Audit Follow-up Programs* issued annually by PFM for a schedule of key actions.

**Establish a status reporting process.** Status reports identify the status of all tasks relating to the assessment's critical paths, and ensure those affected by the assessment are kept informed of the assessment's progress, the upcoming steps, and any issues that need to be resolved. Status reports should be scheduled and issued on a regular basis which is posted in the calendar.

## **SIGNIFICANT FINANCIAL REPORTS**

The Department has identified the following principal financial reports as "significant" and subject to Circular requirements<sup>3</sup>:

1. Annual/Quarterly Financial Statements
2. Year-end Financial Statement information supporting the Financial Report of the U.S. Government
3. SF-133, Report on Budget Execution and Budgetary Resources
4. SF-132, Apportionment and Reapportionment Schedule
5. SF-224, Statement of Transactions

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<sup>2</sup> Circular A-123, Appendix A, Section V.A.

<sup>3</sup> Circular A-123, Appendix A, Section II.B.

## 6. FMS Form 2108, Year-End Closing Statement

Other reports may be subject to the Circular requirements based on qualitative and other criteria.

### **MATERIALITY THRESHOLDS**

The Department should set materiality sufficiently low for the assessments to ensure that controls are in place to prevent and detect material internal control weaknesses, with goals to ensure timely, current, accurate, and accessible financial information. As defined in Financial Accounting Standards Board (FASB) Statement of Financial Concepts No. 2, materiality represents the magnitude of an omission or misstatement of an item in a financial report that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item. Materiality is based on the concept that items of little importance, which do not affect the judgment or conduct of a reasonable user, do not require investigation. Materiality has both quantitative and qualitative aspects. Even though quantitatively immaterial, certain types of misstatements could have a material impact on or warrant disclosure in the financial statements for qualitative reasons.

**Planning Materiality.** The Department should estimate materiality as defined above in relation to the element of the financial statements that is most significant to the primary users of the statements. Although a computation may determine planning materiality, judgment is needed to evaluate whether the computed level should be adjusted for such items as unrecorded liabilities, contingencies, and other items that are not incorporated in the financial statements (and not reflected in the materiality base) but that may be important to the financial statement user. The planning materiality threshold for the set of financial statements and the thresholds for other reports are considered when determining extent of testing. Materiality and therefore extent of work may differ from report to report ensuring that items required to be reported will be detected.<sup>4</sup> Materiality should be reconsidered at least immediately prior to concluding on the assessment and determining what control weaknesses must be reported.<sup>5</sup> Refer to Addendum A for discussion on financial reporting items not covered by the financial statement materiality definition.

Interior's planning materiality for financial statement line items, based on net cost to the government (appropriations), is specified as 1% of Net Outlays for the prior fiscal year's Combined Statement of Budgetary Resources (the materiality base).

**Testing Materiality.** Interior's testing materiality is the same as planning materiality. Reviewers will assess material items. Management's materiality is well below the financial statement auditor's materiality defined by GAO as 1% of the larger of Assets or Expenditures.

**Report Materiality.** Report materiality is a function of management judgment, and it serves as a threshold of reporting control weakness as reportable or material, impacting whether an unqualified statement of assurance can be issued. In the reporting phase, the Department considers whether misstatements are quantitatively or qualitatively material. If considered to be

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<sup>4</sup> Revised Circular A-123, Appendix A, Section II.C.

<sup>5</sup> Page 17 in CFO Council's *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control*, Appendix A

material, the Department is precluded from issuing an unqualified statement of assurance over financial reporting. Report materiality generally should be 3% of the materiality base.

## **SIGNIFICANT ACCOUNTS**

For each applicable financial report, apply the materiality threshold to identify accounts or groups of accounts that may have a material effect on the respective financial report. Consider whether there is more than a remote likelihood that the account may contain misstatements (either an overstatement or understatement) that individually or in the aggregate may have a material effect on the financial report. Then, identify significant transactions that affect those accounts. Refer to Exhibit 1 for an example Internal Control Matrix with significant accounts.

Qualitative characteristics to consider include:

- Political sensitivity of a program or balance
- Importance of a balance or amount to oversight agencies and their reliance on such balance or amount
- Knowledge of past errors
- Susceptibility to loss due to errors or fraud (e.g., intentional manipulation of estimates used in the financial reports or material misappropriation of assets)
- Accounting and reporting complexities associated with the account (e.g., environmental liabilities, actuarial liabilities)
- Likelihood of significant contingent liabilities arising from the underlying activities
- Changes in account characteristics.

## **RELEVANT FINANCIAL REPORT ASSERTIONS**

Map the financial report assertions to each of the significant accounts. Not all assertions will be relevant or significant to all accounts. The following are the types of assertions that may be inherent in the significant accounts<sup>6</sup>:

1. Existence and Occurrence – All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the report date.
2. Completeness – All assets, liabilities, and transactions that should be reported have been included, and no unauthorized transactions or balances are included.
3. Rights of Ownership and Obligations – The Department legally owns all assets, and all liabilities are its legal obligation.
4. Valuation and Allocation – All assets and liabilities have been properly valued and where applicable, all costs properly allocated.
5. Presentation and Disclosure – The financial report is presented in proper form with required disclosures.
6. Compliance – The transactions are in compliance with applicable laws and regulations.
7. Safeguarding – All assets have been safeguarded against fraud and abuse.
8. Documentation – Documentation for internal control, all transactions, and other significant events is readily available for examination.

Risks are associated with each type of assertion, so the team should review each significant account and determine the type of material error or misstatement that may occur for each assertion. This step is critical. The results of the evaluation of these assertions and identification

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<sup>6</sup> Circular A-123, Appendix A, Section II.A.

of risks will help determine the types of controls that should be assessed and the tests that will likely need to be performed during the Document Controls and the Evaluate Design and Operating Effectiveness phases.

## **MAJOR TRANSACTION CYCLES**

Identify the major transaction cycles or classes of transactions that materially affect each of the significant accounts or groups of accounts. A major transaction cycle is a business process for which the quantity and dollar volume of transactions is so great that if a material error occurred in the process, it would affect the Department or bureau's decision-making process. For example, disbursement of funds is a major transaction cycle since a material error may affect several accounts, including Fund Balance with Treasury. Another consideration when identifying major transaction cycles and financial systems is whether the transactions are routine, non-routine, or represent an accounting estimate. Refer to Attachment 2 for transaction cycles that should be considered for testing.

## **LINK ACCOUNTS AND TRANSACTION CYCLES**

Use mapping and link significant accounts to the transaction cycles and processes that provide the source data. List all significant accounts and ensure that each has the requisite transaction cycle(s) mapped to it.

## **ESTABLISH OVERALL ORGANIZATIONAL APPROACH**

Interior is using a Departmentwide approach whereby analysis of the Departmentwide financial statements and identification of the significant line items helps determine which components, programs, or administrative functions contribute to those line items. Only those controls needed to provide sufficient evidence to provide assurance on the internal control over the Department's financial reporting are evaluated. This process will be repeated for all significant reports and all material line items included in the Department's assessment.



## **SECTION 2**

### **CHAPTER 3**

#### **DOCUMENTING CONTROLS**

Documenting controls entails documenting the activities and processes for initiating, recording, and reporting transactions for significant accounts and disclosures in order to identify the controls within each process; assessing the effectiveness of the design of the controls to determine whether the controls, as designed, would prevent or detect a material error or misstatement related to an account or groups of accounts; and document the assessment process.

Steps required:

- Document the assessment of effectiveness
- Document the major transaction cycles
- Assess the control environment
- Assess the risk assessment process
- Assess the control activities
- Assess the information and communication processes
- Assess the monitoring processes
- Obtain process owner's concurrence with the documentation of controls

#### **DOCUMENT THE ASSESSMENT OF EFFECTIVENESS**

The senior assessment team must document the assessment process of internal control over financial reporting, including<sup>7</sup>:

- The establishment of the senior assessment team, its authority and members;
- Contracting actions if contractors are used to perform or assist in the assessment;
- Communications with agency management and employees regarding the assessment;
- Key decisions of the senior assessment team;
- The assessment methodology and guide;
- The assessment of internal control at the entity level;
- The assessment of internal control at the process, transaction, or application level;
- The testing of controls and related results; and
- Identified deficiencies and suggestions for improvement.

The documentation may be electronic, hard copy format, or both, and should be available for review. Documentation should also include appropriate representations from officials and personnel responsible for monitoring, improving and assessing internal controls.

#### **DOCUMENT THE MAJOR TRANSACTION CYCLES**

Documentation is overseen by the Senior Assessment Team and managed by the Office of Financial Management. Documentation may include narratives, organizational charts, flow charts, questionnaires, decision tables, and memoranda. The first step is documenting the transaction cycles used for each of the significant accounts, groups of accounts, and transactions at bureaus and developing an understanding, from beginning to end, of the underlying processes and document flows involved in each transaction cycle. These are the processes for initiating,

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<sup>7</sup> Circular A-123, Appendix A, Section IV.B.

authorizing, recording, processing, and reconciling accounts and transactions that affect the financial reports. The documentation process helps identify the controls that support the assertions made by management related to those accounts or transactions. And it will identify the places in the processes where an error or a misstatement due to error or fraud may occur. Consider multiple controls within the transaction cycle as a single control within a transaction cycle is normally not considered sufficient. Examples of controls that may be identified by management are listed in Addendum B.

To document the Department and bureau's major transaction cycles, gain an understanding of institutional knowledge; examine policy and procedures manuals; gather existing forms and documents; and develop transaction cycle memos (TCMs), process flowcharts, and control matrices. Use the process narrative or the flowchart to document the assessment team's understanding, and then summarize its understanding using the control matrices.

**Institutional knowledge.** Interviews should be conducted with personnel who have knowledge of the Department and bureau's operations to obtain an understanding of financial and operational business processes. Policy and procedures manuals define the way controls are supposed to function, but interviews with the personnel performing the processes are likely to reveal the way the controls actually operate. Moreover, interviewing the owners of the major classes of transactions may help to identify the controls in place.

**Existing policy and procedure manuals.** Existing policy and procedure manuals should be reviewed and referred to in the documentation. This is more effective than creating new documentation. If the manuals are obsolete or insufficient, management will be requested by the senior assessment team to update the manuals.

**Existing forms and documents.** The documentation process includes obtaining examples of the forms and other documents used by the bureau and then highlighting the evidence of controls on each documented example. For example, a person performing a reconciliation usually initials and dates a reconciliation form when he or she completes the reconciliation. Obtain a copy of the form, highlight the evidence of the control activity (e.g., initials and date), and include the form with the documentation. This process will enable the testing of controls, reviewing of project workpapers, and recurring annual assessments to be significantly more efficient.

Some level of documentation of internal controls over financial reporting should be maintained for all locations, including those not considered to be significant either individually or in aggregate. The extent of this documentation may vary across locations, and often is based on the financial significance of each location. This documentation may take many forms, including: policy manuals, accounting manuals, memoranda, flow charts, job descriptions, documents, decision tables, procedural write-ups, self-assessment reports, and other documentation as appropriate. The form and extent of documentation will vary depending on the bureau and office's size, complexity, and documentation approach. However, simply having manuals and policies without demonstration of any reconciliation to the assessment process is not sufficient.

**Transaction cycle memos.** TCMs provide a written summary describing each transaction's starting point, processing, and completion point. The TCM identifies significant or key controls in the process designed to meet the Department's control objectives and cover management's financial statement assertions. Management relies upon these key controls to prevent and detect material errors and misstatements. Write TCMs ensuring that a reader familiar with internal

controls over financial reporting will understand the process. Since most cycles have many controls, number the controls and identify them by control type. The process owners should review TCMs and ensure that the key controls identified are appropriate and completely address identified risks.

**Transaction cycle flowchart.** Transaction cycle flowcharts are an efficient way to document key controls in a process, provide basis to confirm the TCMs' accuracy with the process owners, and help identify if more than one control accomplishes the same objective of reducing the risk of an error or misstatement within a process. A flowchart marking key controls with control numbers assigned in the TCM allows comparability with the narrative.

**Internal control matrices.** Control matrices are an efficient approach to documenting and understanding the key controls and specific risks. A control matrix 1) lists the risks and assertions for an account or line item and the control characteristics that cover the assertions; 2) cross-references the controls to the risks they address; and 3) notes the effectiveness of the process design and operation. It also provides information about the type, level, frequency, objectives, and significance of the controls. This information enables quick determination of an identified risk for which there is no key control. If the risk is determined valid by the process owners, a related control must be present, or there is a gap in internal controls that must be remedied. Refer to Exhibit 1 for a sample internal control matrix.

## **ASSESS THE CONTROL ENVIRONMENT**

The control environment is the organization structure and culture created by management and employees to provide internal control. The control environment is the foundation for all other components of internal control and influences the control consciousness of those working in the organization.

Conduct interviews and surveys to document management's leadership style and the tools management uses to achieve control environment objectives. Automated surveys may help gain a sense of the control environment and point to areas needing additional focus. This serves as evidence of due diligence in assessing the general control environment. A conclusion should indicate whether each of the following aspects of the general control environment is adequate:

- Integrity and Ethical Standards [Integrity, Competence, Attitude, Compliance with Laws]
- Commitment to Competence [Integrity, Competence, and Attitude]
- Management's Relationship with Oversight (Congress, OMB, Etc.)
- Management's Philosophy and Operating Style [Integrity, Competence, and Attitude]
- Organizational Structure [Delegation of Authority and Responsibility]
- Assignment of Authority and Responsibility [Delegation of Authority and Responsibility]
- Human Resource Policies and Practices [Integrity, Competence, Attitude, and Compliance with Laws]
- Compliance with other applicable laws (FMFIA, FFMIA, CFO Act, Inspector General Act of 1978, as amended (IG Act), Financial Information Security Management Act of 2002 (FISMA), Improper Payments Information Act of 2002 (IPIA), Government Performance and Results Act (GPRA), Single Audit Act, as amended, and Clinger-Cohen Act of 1996)

## **ASSESS THE RISK ASSESSMENT PROCESS**

**Identify Risk Factors for Financial Reporting.** Risk assessment relates to how management considers risks relevant to financial reporting objectives and decides about actions to address those risks. Evaluate management's processes for determining the level of risk related to internal controls over financial reporting and determine actions to address those risks. Starting with the Department's process for complying with GPRA, this includes determining how organization objectives are established, identifies risks that would prevent achievement of the objectives, estimates the significance of the risks in relation to financial reporting, assesses the possible existence of the risks in the current environment, and continues to monitor changes to the environment that may increase or reduce the risks. The results of this assessment at the Departmentwide level will drive the extent of testing and review that needs to be performed at the process, transaction, and application levels.

Consider the following circumstances or events affecting risk:

- Complexity or size of programs, operations, transactions, etc.
- Decentralized versus centralized operations, accounting, and reporting functions
- Extent of manual or automated processes or applications
- New or amended laws, regulations, or accounting standards
- Changes in the operating environment
- Significant new or changed programs or operations
- Restructurings or budget cutbacks which may include downsizing and changes in supervision and segregation of duties
- New personnel or significant personnel changes
- New or revamped information systems
- New technology
- Existence of related party transactions
- Accounting estimates

Prepare a summary of specific risks of misstatement for each significant line item, which will be used to determine the testing plan. The summary should include a list of the significant line items or accounts, related balances and financial statement assertions, and the related risks. Assess the control or combined risk for each assertion, document the assessment, and prepare the testing plan. Refer to Addendum 3 and Exhibit 1 and 2 for additional information and sample templates of the summary of risks.<sup>8</sup>

The types of risks identified may be adapted in determining the testing plan for internal control over financial reporting.

- Inherent risk – the susceptibility of an assertion to misstatement, assuming there are not related specific control activities. Inherent risk factors include: the nature of the Department or bureaus' programs, transactions and accounts and whether the Department had significant audit findings.
- Control risk – the risk that misstatements will not be prevented or detected by the Department or bureaus' internal control (assess separately for each significant financial statement assertion in each significant cycle or accounting application).

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<sup>8</sup> Page 19 in CFO Council's *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A*

- Combined risk – the likelihood that a material misstatement would occur (inherent risk) and not be prevented or detected on a timely basis by the Department or bureaus’ internal control (control risk).
- Fraud risk – the risk that there may be fraudulent financial reporting or misappropriation of assets that causes a material misstatement of the financial statements.
- Detection risk – the risk that management will not detect a material misstatement that exists in an assertion.

### **Identify Control Objectives that Reduce or Eliminate Identified Financial Reporting Risks.**

Control objectives should address financial processes at each bureau or office. Control objectives are the positive effects that management tries to attain or an adverse condition or negative effect that management seeks to avoid. Controls should provide reasonable, but not absolute assurance of deterring or detecting misuse of resources, failure to achieve program objectives, noncompliance with laws, regulations, and management policies. Controls should be reasonable and weighed against their cost and potential gain. Some control objectives and/or activities that may eliminate or reduce financial reporting risks are:

- Personal integrity and trustworthiness;
- Background investigations and favorable screening;
- Management team that provides continuity and stability;
- Sufficient resources to perform the various job functions;
- Staff possess the requisite knowledge, competencies, and experience;
- Safeguarding of assets and compliance with laws and regulations;
- Physical security/access;
- Segregation of duties;
- Restricted access to resources, records, systems, etc;
- Authorization and approval (supervision) over information and systems;
- Review and reconciliation of financial transactions;
- Transactions and other significant events are well documented in policies and procedures;
- Transactions and events are promptly recorded by authorized persons;
- Adequate internal controls over third party systems or activities;
- Sufficient internal controls in areas that could result in personal gain;
- Adequate training (continuing education) exists that provides staff with technical and ethical training to ensure current knowledge of new rules, regulations, and practices;
- Monitoring of the above control activities to ensure processes, systems and controls are updated and being followed; and
- Sufficient testing to determine whether controls are adequate and consistently applied.

### **ASSESS THE CONTROL ACTIVITIES**

Control activities are policies, procedures, and mechanisms that help ensure the control objectives are met and that management’s assertions in the financial reporting are valid. Control activities include preventative or detective controls and may be either manual or automated.

Control activities that may be present include<sup>9</sup>:

- Policies and procedures

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<sup>9</sup> Pages 12-16 in GAO’s *Standards for Internal Control in the Federal Government* (report AIMD-00-21.3.1), issued November 1999.

- Management objectives
- Top-level reviews of actual performance
- Review and analysis by management at the functional or actual level
- Management of human capital
- Controls over information processing (planning and reporting systems)
- Physical controls over vulnerable assets
- Establishment and review of performance measures and indicators
- Segregation of duties
- Proper execution of transactions and events
- Accurate and timely recording of transactions and events
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

Reviews by management should be coupled with another control technique to sufficiently mitigate risk. As part of the evaluation, identify any manual controls that are either redundant or secondary to a primary automated control. Redundant and secondary controls that are not effective or not providing the desired level of risk mitigation may be eliminated.

There are three unique elements of control activities that need to be evaluated: information technology controls, third-party service providers, and fraud.

**Information technology controls.** Interior relies on information technology (IT) controls to perform its missions, manage processes, and report financial information. Evidence that IT system components are operating effectively supports the assessment of internal controls over financial reporting. Applicable system components (e.g. calculations, accumulations, interfaces, and reports) are those affecting significant accounts or disclosures and other relevant financial assertions. Evaluate the following elements of IT controls:

- General IT policies and procedures. General IT policies and procedures are controls relating to key areas like IT strategic planning, budgeting, roles and responsibilities, segregation of duties, resource management, and third-party providers. The Department is integrating the assessment of IT controls as part of the evaluation of internal controls over financial reporting. Compliance with FFMIA and FISMA serve as a foundation for documenting and evaluating the IT controls over financial reporting.
- IT general controls:
  - Systems development and change management. Ensure that IT systems perform their intended functions in an unimpaired manner, free from unauthorized or inadvertent manipulation, and are able to achieve data completeness, accuracy, and timeliness.
  - Availability. Key financial systems subject to outage would adversely affect internal controls because the capability to process, retrieve, and protect data is vital to the Department's ability to accomplish its mission. Key elements related to data availability that need to be considered are business continuity, contingency plans, and environmental and hardware maintenance controls.
  - Information security. The Departmentwide IT security program develops policies, assigns responsibilities, monitors security-related controls, and otherwise manages security risks. Access controls for general support systems and applications should provide reasonable assurance that computer resources such as data files, application programs, and computer-related facilities and equipment are protected against unauthorized alteration, disclosure, loss, or impairment.

- **IT automated controls.** Include the identification and evaluation of key automated controls during the evaluation of the design and operating effectiveness of key controls. Computerized operations may be assessed further by considering the following factors:
  - Uniform processing of transactions
  - Automatic processing
  - Data validated in real-time or after the transaction was processed
  - Increased potential for undetected misstatements
  - Existence, completeness, and volume of the audit trail
  - Nature of the hardware and software used
  - Unusual or non-routine transactions

Refer to Section 3 for more in-depth information on Interior's IT systems and programs.

**Multiple Locations.** Interior and its bureaus are comprised of many locations. Stratifying<sup>10</sup> these locations into groups that are expected to behave similarly with respect to audit measures can improve efficiency and the sample results. The stratification should be based on the relative size or qualitative factors such as inherent risk or control risk. If exact information is not available, then estimates may be used. Locations may be stratified into a top, intermediate, and bottom stratum. Criteria for stratifying may include the following factors:

- Amount of assets
- Amounts of revenue or expenses incurred or processed at the location
- Number of personnel, where payroll costs are significant
- Amount of appropriations
- Concentration of specific items (e.g., inventory storage locations)
- Inherent and control risk, including fraud risk and management turnover
- Special reporting requirements (e.g., separate reports, special disclosures)

**Third-party service providers.** The Department uses internal and external service organizations to process some financial data. These organizations should be evaluated to determine whether the functions performed are significant. If the functions are significant, evaluate evidence describing the operating effectiveness of the provider's controls. Service providers are considered part of Interior's information system when they affect the following:

- The classes of transactions in operations significant to financial reporting.
- The procedures by which transactions are initiated, recorded, processed, and reported from the occurrence to their inclusion in the financial reports.
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial reports involved in initiating, recording, processing and reporting transactions.
- How the Department's information system captures other events and conditions that are significant to the financial reports.
- The financial reporting process used to prepare the Department's financial reports, including significant accounting estimates and disclosures.

A service provider and its auditors issue a report, based on Statement of Auditing Standards No. 70 (SAS 70), Service Organizations. There are two types of reports:

- **Type I Report:** A Type I report covers the design of a service provider's controls.

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<sup>10</sup> GAO's *Financial Audit Manual*, Section 295

- Type II Report: A Type II report covers both the design and the operating effectiveness of the service provider's controls.

If only a Type I report for the service provider is available, tests of the provider's controls must be performed to assess operating effectiveness of the internal controls over financial reporting related to the functions performed by the service provider. A Type II report for the service provider represents additional evidence about the effectiveness of the controls at the service provider as long as the following matters are addressed to satisfaction.

- Type of opinion. If the opinion is not unqualified, obtain an understanding of the nature of the auditor's findings and how these findings may affect the operating effectiveness of Interior's internal controls over financial reporting.
- Period of time covered. The report should cover a sufficient portion of the assessment period to provide evidence of the operating effectiveness for the entire assessment period. If a significant period of time has passed between the end of the time period covered by the service auditor's test of controls and the date of assessment, perform procedures to determine any information in the SAS 70 Type II report in need of update to reflect significant changes in the service organization's controls.
- Scope of the report. Evaluate the report to ensuring coverage of all key controls that need to be tested to provide evidence of the operating effectiveness of internal controls over financial reporting over the functions performed by the service provider.
- Consistency of results with management's review of the service provider. Determine if the results listed in the Type II report are consistent with the results from management's day-to-day review of the accuracy of the service provider.

Fraud. Controls needed to prevent, detect, and correct fraudulent financial reporting should be identified and documented. Normally, these are controls related to estimates and assets that are liquid and more susceptible to misappropriation or theft. Independent verification of and concurrence with the estimating methodology and the data elements of the estimating assumptions are likely to prevent fraudulent financial reporting. Safeguard controls such as restriction of access, requirements for authorizations, and separation of duties may also prevent fraudulent reporting resulting from misappropriation or theft of liquid assets.

Three conditions are generally present when fraud occurs<sup>11</sup>:

- Incentive/Pressure. Management, other employees, or external parties have an incentive or are under pressure, which provides a motive to commit fraud.
- Opportunity. Circumstances exist, such as ineffective or absent controls or the ability of management to override controls that provide an opportunity to commit fraud.
- Attitude/Rationalization. Individuals involved are able to rationalize committing fraud. Some individuals possess an attitude, character, or ethical values that allow them to knowingly and intentionally commit a dishonest act.

## **ASSESS THE INFORMATION AND COMMUNICATION PROCESSES**

Relevant, reliable, and timely information related to financial reporting should be communicated to relevant personnel at all levels within the Department. To that end, evaluate and document the Department's financial reporting processes to determine what information is based upon

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<sup>11</sup> GAO's *Financial Audit Manual*, Section 260



integrated systems or the same source information; whether the information is recorded and communicated in a form and within a time frame that enables managers, operating personnel, and others within the Department who require the information to carry out their internal control, operational, and other responsibilities; and whether the information is made available outside the Department, as appropriate. Documentation should include the evidence reviewed, inquiries performed, and the conclusion as to whether the process is effective. Any aspects of the process found ineffective in the conclusion should be remedied by management. Evaluate the notification to employees of their control-related duties and responsibilities and the manner in which incoming external communications are handled. These responsibilities are usually documented in position descriptions, policy and procedures manuals, written memos and letters that identify and confirm actions taken, meeting agendas, meeting minutes, and oral communications.

## **ASSESS THE MONITORING PROCESSES**

Monitoring the effectiveness of internal control should occur as the normal course of business. Evaluate in what manner the Department and bureaus are monitoring and evaluating the internal control environment and identifying and correcting deficiencies in a timely fashion throughout the year. Consider:

- Ongoing monitoring activities. Look for regular management and supervisory review, comparisons between planned and actual performance, and reconciliations between systems as a part of the regular assigned duties of personnel who affect the Department's financial reporting.
- Performing separate evaluations. Determine processes and resources in place to perform ongoing testing to monitor the operating effectiveness of internal control over financial reporting. Look for inquiries of unusual matters, detail testing of selected transactions, and periodic analysis of trends.
- Reporting deficiencies. Evaluate the process for reporting deficiencies in operating effectiveness to the appropriate level of management, undertaking corrective action in a timely fashion, and tracking the status of corrective actions.

## **OBTAIN PROCESS OWNER'S CONCURRENCE WITH THE DOCUMENTATION OF CONTROLS**

All TCMs, flowcharts, and control matrices should be reviewed and approved by personnel responsible for the respective business processes, transaction cycles, or contract activity. All process owners' comments should be retained and marked to indicate how the comments were resolved. Each comment should result in either a change to the documentation or, if no change occurs, acknowledgement by the process owner that, after further explanation, the comment is not relevant. After addressing the comments, the process owner should sign and date the documentation to show that management has accepted the documentation as a correct representation of the process and controls.

## **SECTION 2**

### **CHAPTER 4**

#### **EVALUATING DESIGN AND OPERATING EFFECTIVENESS**

Evaluating the design and operating effectiveness of internal controls involves three steps that are used to test all key controls needed to support management's assurance statement on internal control over financial reporting:

- Assess the design of key controls
- Define and document the testing approach
- Test the key controls

#### **EVALUATE THE DESIGN OF KEY CONTROLS**

Evaluate the key controls and determine if they are designed to prevent or detect material errors or misstatements related to an account or group of accounts. The design of key controls may be evaluated through interview, inquiry, and/or observation of the controls. Select transactions subject to the control and evaluate whether the design of the control would detect any errors or misstatements, assuming the control was properly executed. Key questions to consider include<sup>12</sup>:

- How could potential misstatements in significant financial reporting processes affect the related line item or account at a financial reporting assertion level?
- How does the related control objective prevent or detect the potential misstatement?
- Are identified control techniques likely to achieve the control objectives?

The reviewer should document the results of the evaluation of design in a memorandum that includes 1) the name and contact number of any person interviewed, the specific items selected for evaluation, the results of the evaluation, and his or her conclusion regarding whether the control is designed properly and 2) was it effective, moderately effective, or not effective. The documentation memorandum should note an identifying number, amount, and date for each transaction reviewed, and be written in sufficient detail to enable someone of similar knowledge to reperform the evaluation using the same items.

Testing is not needed if a control over a significant account or group of accounts is missing or the design is not suitable to the associated risk. Instead, absent or unsuitable controls should be noted in a list of deficiencies and suggested for improvement with enough space to note the nature of the deficiencies. Further testing of transactions subject to such controls help determine if any actual loss, fraud, error, improper payment, or noncompliance occurred.

#### **DEFINE AND DOCUMENT THE TESTING APPROACH**

Test if key controls that were deemed effective or moderately effective function as they were designed. The test determines the extent to which the controls were applied, the consistency of their application, and who applied them. To ensure that all key controls are tested, use a testing approach that defines the nature, timing, and extent of testing necessary to provide sufficient evidence to support management's assertion. This requires that the TCMs, flowcharts, and internal control matrices be reviewed; the controls to be tested be listed in a test program with

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<sup>12</sup> Page 28 in CFO Council's *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control*, Appendix A

the nature, timing, and extent of testing for each control defined; and the controls in the test program be cross-referenced with the memos, flowcharts, and control matrices to ensure all are tested. The testing should address both manual and automated controls. When the IT control environment is considered effective, greater reliance with less testing may be appropriate for those automated controls as compared to manual controls.

**Nature of testing.** An acceptable testing procedure should be developed for each key control. Acceptable tests include:

- Inspection of documents, reports, or electronic files demonstrating control performance
- Repperforming the application of specific controls
- Observing the application of specific controls in operation
- Inquiry of appropriate personnel
- A walkthrough tracing a transaction from origination through the information system until the transaction is reflected in the financial reports. A walkthrough encompasses the entire process of initiating, authorizing, recording, processing, and reporting individual transactions and controls for each significant process.

Evaluation at the Departmentwide level is generally accomplished through observation, inquiry, and inspection, rather than the detailed testing that lends itself to the transaction or process level internal controls. Questionnaires and checklists are most useful at this level. Adapt the Department's automated survey and assessment tool based on the GAO Assessment Tool for evaluation of internal control to assist in assessing internal control at the entity-wide level.

Tests of design at the process level are usually performed by inquiry and observation; or inspection of documents, such as reports and completed forms; or through on-screen prompts, such as errors or warnings. Tests of design typically address the:

- Type of control, including configuration, management review, and authorization
- Nature of the control (i.e., automated or manual, preventive or detective)
- Frequency of the control (e.g., daily, weekly, monthly)
- Experience and competence of the individual performing the control
- Error investigation and correction procedures, including the timeliness of such procedures. It is important to note that inquiry alone ordinarily is not sufficient to support design effectiveness.

**Timing of testing.** Testing should be schedule throughout the year or quarterly for those controls that coincide with preparation of quarterly financial statements to OMB. Certain financial reporting controls have traditionally only operate at year-end, so there is only one opportunity to test and no opportunity to remedy failure. Consider implementing them during the quarterly financial reporting process, so time is available for remediation and verification.

**Extent of testing.** The selection of locations for testing should consider the risks of error and materiality. The locations and extent of testing should be documented in the test plan, and signed off by the affected process owners. The extent of testing also depends on the risk of failure of the control defined as the risk of a material misstatement arising from the failure of a control. If it is believed there is a high risk of failure, expand the extent of testing for that control. Factors that affect whether the control may represent a higher risk of failure include:

- Changes in the volume or nature of transactions
- Changes in the design of controls

- The degree to which the control relies on the effectiveness of other controls
- Changes in key personnel who perform the control or monitor its performance
- Degree to which the control relies on an individual's performance rather than automation
- The complexity of the control

Statistical and judgmental sampling may be used to limit the number of transactions and other items tested, yet ensure the testing is adequate for the conclusions to be drawn and provide sufficient evidence to support management's assurance statement. Statistical sampling may be the most efficient approach for tests of complex controls (e.g. several locations, many samples throughout the year). The GAO and AICPA offer statistical sampling approaches for financial statement audit purposes that may be used alone or in combination with judgmental sampling.

To determine the sample size for controls at various locations, the auditor uses judgment to determine three factors: the confidence level, the tolerable rate (maximum rate of deviations from the prescribed control acceptable without altering the preliminary assessment of control effectiveness), and the expected population deviation rate (expected error rate). Once these factors are determined, software such as Interactive Data Extraction and Analysis (IDEA) or tables are used to determine sample size and how many deviations may be found without having to change the control risk assessment. Developing a representative sampling plan may require the use of a qualified statistician to define expected error rates and the level of confidence obtained from actual error rates.

## **TEST THE KEY CONTROLS**

Test the controls are operating effectively and the assertions valid compared to the acceptable level of error documented in the testing plan. Determine whether the controls have been applied adequately using a sample of transactions processed throughout the period as indicated in the sampling plan. Samples should be selected from the complete population of transactions for which controls are to be tested. Detailed documentation of the reperformance of transactions or controls will determine if the controls perform as designed and allow others to duplicate the reperformance if needed.

## SECTION 2

### CHAPTER 5

#### IDENTIFYING AND CORRECTING DEFICIENCIES

Identifying and correcting deficiencies involves four steps:

- Interpret the results
- Categorize the types of control deficiencies
- Attempt to remedy deficiencies and test remedied controls
- Changes in status between June 30 and September 30

#### INTERPRET THE RESULTS

Analyze the results and determine if the error rate on each control exceeded the acceptable error rate as written in the plan or was high enough to allow material errors or misstatements to occur without detection. Beyond just dollar amounts, consider whether a control that is not executed properly or consistently would allow a material error or misstatement to occur and not be detected and the control's importance or significance. Process owners should review and validate detected errors and determine if compensating controls may mitigate the problem. A compensating control is a technique or other effort(s) designed to mitigate the absence of a control or to mitigate a deficiency in control design or operating effectiveness. The sampling plan should allow for the expansion of the sample to determine if the initial error rate is correct when it appears the original smaller sample was not representative of the function of the controls. If, after additional testing, the control is still considered to be not functioning, it should be documented as deficient (i.e., a control that is not functioning nor is mitigated by other controls).

As a final step, process owners should review the likely impact of the control gaps on financial reporting. A control gap exists when a control for a given financial statement assertion does not exist, does not adequately address a relevant assertion, or is not operating effectively. List the gaps in the list of deficiencies and document suggestions for repairing controls and processes. This provides management the opportunity to remedy the deficient controls prior to the Department's assessment date.

#### CATEGORIZE THE TYPES OF CONTROL DEFICIENCIES

An internal control deficiency<sup>13</sup> exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect errors or misstatements on a timely basis. A deficiency in design keeps the control objective from being met even when the control functions as designed. A deficiency in operation is a properly designed control does not operate as designed or is performed by an unqualified or improperly skilled person. Deficiencies are categorized as follows:<sup>14</sup>

- Simple deficiency - generally an anomaly and creates minimal exposure for management (e.g. missing initials indicating a supervisor's review on 1 of 26 reconciliations sampled).

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<sup>13</sup> Control deficiency and related reportable condition and material weakness are based on the definitions provided in Auditing Standard No. 2 – An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements issued by the Public Company Accounting Oversight Board (PCAOB) and referred to in the Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A

<sup>14</sup> Page 38 in CFO Council's *Implementation Guide for OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A*

- Significant deficiency - indicates a history of internal control deficiencies that when consolidated equate to a reportable condition (e.g. only 8 months of reconciliations were performed for the year).
- Reportable condition - significant internal control deficiency, or combination of control deficiencies, that adversely affects Interior's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles to such a degree that there is more than a remote<sup>15</sup> likelihood that a misstatement in the financial statements, or other significant financial reports, that is more than inconsequential<sup>16</sup> will not be prevented or detected.
- Material weakness - a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected (e.g. reconciliation of several key accounts were not performed throughout the year, only at year-end).

List each control deficiency and note whether it is mitigated by a compensating control. If it is not mitigated or can not be tested then decide if the deficiency is significant enough to report outside Interior. Weaknesses significant enough to report outside Interior must be included in Interior's assurance statement that is included in the PAR. Significant deficiencies identified under FISMA should also be considered material weaknesses to be included in the assurance statement if they might cause a material misstatement to the Department's financial reports included in the assurance statement.

OMB requires that a corrective action plan (CAP) be developed for each material weakness, reportable condition, other control deficiency, and "non-conformances" with the financial system requirements. Refer to Section I Chapter 4 for additional information on CAPs.

## **ATTEMPT TO REMEDY DEFICIENCIES AND TEST REMEDIED CONTROLS**

Attempting to correct control deficiencies as they are identified benefits the Department by improving the controls in the current fiscal year and allowing preparation of the assurance statement without including control deficiencies corrected prior to June 30, or at least reporting they were corrected prior to the end of the fiscal year. Review the Department's plan for correcting deficiencies to ensure that sufficient time is available to both complete the remediation and retest the controls prior to either the assessment date (June 30) or the fiscal year-end (September 30). If adequate time is available, test the remedied controls to determine whether the design and operation of the controls are effective as of June 30 or September 30.

This testing should be tracked on the assessment calendar to ensure that it covers transactions in the proper period. Any testing that cannot be completed for the applicable period in time for the results to be reported in management's September 30 assurance statement should not be performed since there is no benefit for the year to which the report pertains.

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<sup>15</sup> The term "remote" is defined in the Statement of Federal Financial Accounting Standards (SFFAS) No. 5, Accounting for Liabilities of the Federal Government, as the chance of the future event(s) occurring is slight.

<sup>16</sup> The PCAOB Auditing Standard No. 2 specifies that a misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when combined with other misstatements, would clearly be immaterial to the financial statements. If a reasonable person could not reach such a conclusion regarding a particular misstatement, that misstatement would be more than inconsequential.

## **CHANGES IN STATUS BETWEEN JUNE 30 AND SEPTEMBER 30**

Evaluate internal controls from June 30 to the fiscal year-end to determine areas needing update by considering any weaknesses disclosed at June 30, whether those weaknesses have been corrected, or whether any new weaknesses have been identified. Consider the effects and update the Department's initial report to include all errors constituting a material weakness at year-end.

The process to identify changes in the internal control environment that may impact management's assessed effectiveness of internal controls over financial reporting after June 30:

- Survey departmental and bureau management to identify any potential changes in the internal control environment that require assessment
  - Major changes in the Department's mission or programs
  - Reorganizations or other changes to the Department's organizational structure
  - Significant increases or decreases in staffing levels
  - Turnover of key management or personnel who perform key control activities
- Communicate with persons leading other Departmental assessments, reviews, and audits to determine if any potential material weaknesses were identified that were not detected during the earlier assessment
- Review the results of follow-up testing used to validate the effectiveness of CAPs if material weaknesses were reported as resolved
- Review results of the financial statement audit
- Review results of any program audits performed by the OIG or GAO

## SECTION 2

### CHAPTER 6

#### REPORTING ON INTERNAL CONTROL

The Secretary of the Interior reports on the effectiveness of internal controls over financial reporting. This involves two steps:

- Arriving at the overall conclusion
- Preparing management's assurance statement

#### ARRIVING AT THE OVERALL CONCLUSION

Management's conclusion as to the operating effectiveness of internal controls is based on the results of the assessment performed at the Departmentwide level and of assessments made at the component, process, transaction, application, and other subordinate levels. Bureau heads will provide assurance to the Secretary by signing the statement of assurance and submitting it through the bureau's assistant secretary. Refer to Exhibit 4 for a sample assurance letter.

Management should state its conclusion in one of the following ways:

- Unqualified statement of assurance (no material weaknesses to report)
- Qualified statement of assurance (one or more noted material weaknesses)
- Statement of no assurance (pervasive material weaknesses or no processes in place)

#### PREPARING MANAGEMENT'S ASSURANCE STATEMENT

The final step in reporting is for management to prepare an assurance statement on internal controls over financial reporting to be included in the PAR. Refer to Exhibit 5A, 5B, and 5C for sample assurance letters. The purpose of the statement is to report the results of management's assessment of the effectiveness of internal controls over financial reporting as of June 30 of that fiscal year. The assurance statement must include the following:

- A statement of management's responsibility for establishing and maintaining adequate internal control over financial reporting for the Department
- A statement identifying OMB Circular A-123, *Management's Responsibility for Internal Control*, as the framework used by management to conduct the assessment
- An assessment of the effectiveness of the Department's internal controls over financial reporting as of June 30, including an explicit conclusion as to whether internal controls over financial reporting are effective

Include additional information in the assurance statement if one of the following has happened:

- If a material weakness is discovered by June 30, but corrected by September 30, revise the assurance statement reported in the PAR to identify the material weakness, state the corrective action taken, and indicate that it has been resolved. This resolution may be reported only if the control is in place for an adequate amount of time to be properly tested as in the testing plan.
- If a material weakness is discovered after June 30, but prior to September 30; the assurance statement should be updated to include the subsequently identified material weakness.



The assurance statement should be accompanied by a summary of the CAPs for the material weaknesses and system “non-conformances.” The summaries should include a description of the material weaknesses, the status of corrective actions, and the timelines for completion. CAPs need not be reported for reportable conditions not included in the FMFIA report.

**ADDENDUM A**  
**DOI A-123 IMPLEMENTATION PROJECT -**  
**FINANCIAL REPORTING ITEMS NOT COVERED BY THE MATERIALITY**  
**DEFINITION**

**BACKGROUND**

The scope of financial reporting subject to A-123 requirements covers required supplementary information (RSI) and required supplementary stewardship information (RSSI) as well as the principal financial statements and accompanying notes. The statement of Federal Financial Accounting Standards No. 6 “Accounting for Property , Plant and Equipment,” requires annual disclosure of the estimated cost to remedy accumulated deferred maintenance on Interior’s Plant, Property, and Equipment (PP&E) for both general and stewardship PP&E. However, the planning materiality threshold does not apply to all items presented in the RSI and RSSI sections of the DOI financial report. The quantitative data in some of these sections does not have a direct relationship to the information in the financial statements, and in many cases are presented in units of measure other than dollars.

Following is a list of items in the RSI and RSSI sections for which a separate materiality threshold is required:

Item	Units of Measure
Deferred Maintenance: <ul style="list-style-type: none"><li>• Roads, bridges, and trails</li><li>• Irrigation, dams, and other water structures</li><li>• Buildings</li><li>• Other structures (e.g., recreation sites, hatcheries)</li></ul>	Dollars
Stewardship Lands	Acres / Square miles
Non-Collectible Cultural Resources	Number of sites
Museum collections	Number of collections / objects
Library Collectible Heritage Assets	Number of books/periodicals
Intra-Governmental Transactions	Dollars
Investment in Research and Development	Dollars
Investment in Human Capital	Dollars
Investment in non-Federal Physical Property	Dollars

**ACTION REQUIRED**

A separate materiality analysis needs to be performed on each of these items to determine at what level a misstatement of an item would impact management’s or users’ conclusions or decisions.

## **ADDENDUM B**

### **TRANSACTION CYCLES THAT SHOULD BE CONSIDERED FOR TESTING**

#### Financial Reporting

- Budget and Management Reporting
- General Ledger Maintenance
- Accounting Policies and Procedures
- Account Analysis and Reconciliation
- CFO Reporting
- External Financial Reporting

#### Revenue Management

- Recording Budget Authority
- Services Provided
- Collect Advances
- Interagency Agreements
- Reconcile Unfilled Customer Orders

#### Funds Management

- Fund Balance with Treasury
- Cash Receipts and Disbursements
- Investments

#### Grants Management

- Requests and Awards
- Monitoring
- Closeouts

#### Inventory Management

- Acquisition Requests/Purchases
- Distribution/Sales
- Consumption of Inventory

#### Environmental Management

- Evaluation and Reporting of Exposure
- Mitigation
- Prevention

#### Custodial Collections

- Plan and Conduct Lease Sales
- Approve and Enter Into Leases
- Receive Bonuses
- Maintain Long Term Bonuses
- Receive and Process Royalty Reports
- Process Royalty Reports
- Receive Royalty Payments
- Perform Matching Process
- Perform Exception Reporting
- Maintain Royalty Accounts Receivable
- Calculate Royalty Accrual
- Perform Royalty Compliance Requirements

#### Custodial Distributions

- Identify Payee
- Generate Payables
- Identify and Process Payments Exceptions
- Generate Vouchers
- Perform Pay-cycle
- Pay Late Payment Interest
- Reconcile Change in Untransferred Revenue

#### Human Capital Management

- Personnel
- Time and Attendance
- Processing Payroll
- Pension and Postretirement Benefits

#### Procurement

- Credit Cards
- Requisition
- Award and Obligate
- Receive and Pay Invoices
- Invoicing
- Contract Monitoring
- Contract Closeouts

#### Credit Program Management

- Extending Credit
- Loan Servicing
- Estimate Modeling

#### Real Property Management

- Stewardship and Heritage Assets
- Capital Acquisition Requests
- Manage and Maintain Capital Assets
  - Inventory
  - Maintenance
  - Depreciation
- Dispose of Assets
- Leases (Operating or Capital)

#### Information Technology

- Overall Control Environment
- Program Development
- Program Changes
- Access and Security
- System Support and Operation

## **ADDENDUM C**

### **RISK FACTORS FOR FINANCIAL REPORTING**

Financial categories that have political, public impact, or cause embarrassment to the administration [e.g. hazardous waste sites (environmental clean-up), prison conditions, poor education at Indian schools, inadequate safeguarding of stewardship and heritage assets, etc.]

Diverse, decentralized, and remote (12 Regions throughout the United States including Alaska) operations ranging from law enforcement and hospitals to power and irrigation projects.

Lack of technology (internet)

- Impedes accuracy and timeliness of financial reporting to Treasury and OMB
- Impacts compliance or ability to transition to internet based only systems
- Forces manual work processes and the use of applications that affect accuracy and timeliness of data

Existence/reliance of third party data

- National Business Center
- Environmental Clean-Up estimates from Regions
- Contingent Liabilities
- Stewardship and Heritage Assets

Antiquated accounting/information systems

- Lack sufficient interfaces with FFS to minimize errors
- Reliance on data from independent/off-line systems [Loans (LOMAS), Trust systems]

## **ADDENDUM D**

### **ENTITY LEVEL INTERNAL CONTROL ASSESSMENT**

The example entity level internal control assessment<sup>17</sup> is based on the five components of internal control and the GAO checklist used in the financial statement audit. Detail is entered into the template.

#### **Entity Level Internal Control Assessment**

Date	Name	Telephone Number	Email Address
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**Purpose:** To document and evaluate internal controls operating at the entity level

#### **Definitions:**

Internal control at the entity level refers to those elements of the five components of internal control that have an overarching or pervasive effect on the agency. The five components are:

##### **i. Control Environment**

The control environment relates to management's attitude, awareness, and actions concerning the control environment.

- Integrity and ethical standards
- Commitment to competence
- Management philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

##### **ii. Risk Assessment**

Risk assessment relates to how management considers risks relevant to financial reporting objectives and decides about actions to address those risks.

- Complexity or size of programs, operations, transactions, etc.
- Decentralized versus centralized operations, accounting, and reporting functions
- Extent of manual or automated processes or applications
- New or amended laws, regulations, or accounting standards
- Changes in the operating environment
- Significant new or changed programs or operations
- Restructurings or budget cutbacks which may include downsizing and changes in supervision and segregation of duties
- New personnel or significant personnel changes
- New or revamped information systems
- New technology
- Existence of related party transactions
- Accounting estimates

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<sup>17</sup> Circular A-123, Appendix A, Section III.B.

### iii. Control Activities

Control activities relate to the policies and procedures that help ensure that management directives are carried out and that management's assertions in its financial reporting are valid. The Control activities section of the Entity Level Internal Control Assessment will include subsections describing:

- Policies and procedures
- Management objectives
- Planning and reporting systems
- Analytical review and analysis
- Segregation of duties
- Safeguarding of records
- Physical and access controls

### iv. Information and Communication

- Type and sufficiency of reports produced
- Management of IT system development
- Disaster recovery
- Communication of employees control related duties and responsibilities
- How incoming external communication is handled

### v. Monitoring

- Self assessments by management
- Evaluations by the OIG or external auditor
- Direct Testing

### Entity level evaluation of the Control Environment

<b>CONTROL ENVIRONMENT</b>			
<b>Integrity and Ethical Values Comments/Descriptions</b>			
1. The agency has established and uses a formal code or codes of conduct and other policies communicating appropriate ethical and moral behavioral standards and addressing acceptable operational practices and conflicts of interest.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. An ethical tone has been established at the top of the organization and has been communicated throughout the agency.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Management appropriately addresses intervention or overriding internal control.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Commitment to Competence Comments/Descriptions</b>			

1. Management has identified and defined the tasks required to accomplish particular jobs and fill the various positions.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. The agency provides training and counseling in order to help employees maintain and improve their competence for their jobs.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Management's Philosophy and Operating Style Comments/Descriptions</b>			
1. Management has a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Valuable assets and information are safeguarded from unauthorized access or use.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Management has an appropriate attitude toward financial, budgetary, and operational/programmatic reporting.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Organizational Structure Comments/Descriptions</b>			
1. Key areas of authority and responsibility are defined and communicated throughout the organization.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Appropriate and clear internal reporting relationships have been established.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Management periodically evaluates the organizational structure and makes changes as necessary in response to changing conditions.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Assignment of Authority and Responsibility Comments/Descriptions</b>			
1. The agency appropriately assigns authority and delegates responsibility to the proper personnel to deal with organizational goals and objectives.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Each employee knows (1) how his or her actions interrelate to others considering the way in which authority and responsibilities are assigned, and (2) is aware of the related duties concerning internal control.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. The delegation of authority is appropriate in relation to the assignment of responsibility.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Human Resource Policies and Practices Comments/Descriptions</b>			
1. Policies and procedures are in place for hiring, orienting, training, evaluating, counseling, promoting, compensating, disciplining, and terminating employees.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Employees are provided a proper amount of supervision.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Oversight Groups Comments/Descriptions</b>			

1. Within the agency, there are mechanisms in place to monitor and review operations and programs.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>RISK ASSESSMENT</b>			
<b>Establishment of Entity-wide Objectives Comments/Descriptions</b>			
1. The agency has established entity-wide objectives that provide sufficiently broad statements and guidance about what the agency is supposed to achieve, yet are specific enough to relate directly to the agency.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Entity-wide objectives are clearly communicated to all employees, and management obtains feedback signifying that the communication has been effective.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. The agency has an integrated management strategy and risk assessment plan that considers the entity-wide objectives and relevant sources of risk from internal management factors and external sources and establishes a control structure to address those risks.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Establishment of Activity-Level Objectives Comments/Descriptions</b>			
1. Activity-level (program or mission-level) objectives flow from and are linked with the agency's entity-wide objectives and strategic plans.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. The activity-level objectives are relevant to all significant agency processes.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Activity-level objectives include measurement criteria.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
4. Management has identified those activity-level objectives that are critical to the success of the overall entity-wide objectives.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Risk Identification Comments/Descriptions</b>			
1. Management comprehensively identifies risk using various methodologies as appropriate.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Adequate mechanisms exist to identify risks to the agency arising from external factors.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Adequate mechanisms exist to identify risks to the agency arising from internal factors.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
4. In identifying risk, management assesses other factors that may contribute to or increase the risk to which the agency is exposed.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
5. Management identifies risks both entity-wide and for each significant activity-level of the agency.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Risk Analysis Comments/Descriptions</b>			



1. After the risks to the agency have been identified, management undertakes a thorough and complete analysis of their possible effect.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Management has developed an approach for risk management and control based on how much risk can be prudently accepted.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Managing Risk During Change Comments/Descriptions</b>			
1. The agency has mechanisms in place to anticipate, identify, and react to risks presented by changes in governmental, economic, industry, regulatory, operating, or other conditions that can affect the achievement of entity-wide or activity-level goals and objectives.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>CONTROL ACTIVITIES</b>			
<b>General Application Comments/Descriptions</b>			
1. Appropriate policies, procedures, techniques, and mechanisms exist with respect to each of the agency's activities.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The control activities identified as necessary are in place and being applied.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Control activities are regularly evaluated to ensure that they are still appropriate and working as intended. (This point is closely related to the functions, and points included in the "Monitoring" section. See that section for more specific information on monitoring and periodic evaluation of control activities)	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Common Categories of Control Activities Comments/Descriptions</b>			
1. Top-Level Reviews. Management tracks major agency achievements in relation to its plans.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Management Reviews at the Functional or Activity Level. Agency managers review actual performance against targets.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Information Processing. The agency employs a variety of control activities suited to information processing systems to ensure accuracy and completeness. (Further guidance on control activities for information processing is provided in the following section under "Control Activities Specific for Information Systems." In addition, see GAO's Federal Information System Controls Audit Manual (FISCAM) and OMB Circular A-130, Management of Federal Information Resources)	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Physical Control Over Vulnerable Assets. The agency employs physical control to secure and safeguard vulnerable assets.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Performance Measures and Indicators. The agency has established and monitors performance measures and indicators.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Segregation of Duties. Key duties and responsibilities are divided or segregated among different people to reduce the risk of error, waste, or fraud.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Execution of Transactions and Events. Transactions and other significant events are authorized and performed by the appropriate personnel.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Recording of Transactions and Events. Transactions and other significant events are properly classified and promptly recorded.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
9. Access Restrictions to and Accountability for Resources and Records. Access to resources and records is limited and accountability for their custody is assigned.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
10. Documentation. Internal Control and all transactions and other significant events are clearly documented.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Control Activities Specific for Information Systems General Control</b>			
<b>Entity-wide Security Management Program Comments/Descriptions</b>			
1. The agency periodically performs a comprehensive, high-level assessment of risks to its information systems.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Senior management has established a structure to implement and manage the security program throughout the agency and security responsibilities are clearly defined.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. The agency monitors the security program's effectiveness and makes changes as needed.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Access Control Comments/Descriptions</b>			
1. Resource owners have identified authorized users, and their access to the information has been formally authorized.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. The agency has established physical and logical controls to prevent or detect unauthorized access.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Application Software Development and Change Control Comments/Descriptions</b>			
1. Information system processing features and program modifications are properly authorized.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. All new or revised software is thoroughly tested and approved.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. The agency has established procedures to ensure control of its software libraries, including labeling, access restrictions, and use of inventories and separate libraries.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>System Software Control Comments/Descriptions</b>			
1. The agency limits access to system software based on job responsibilities, and access authorization is documented.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Access to and use of system software is controlled and monitored.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

3. The agency controls changes made to the system software.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Segregation of Duties Comments/Descriptions</b>			
1. Incompatible duties have been identified and policies implemented to segregate those duties.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Access controls have been established to enforce segregation of duties.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. The agency exercises control over personnel activities through the use of formal operating procedures, supervision, and review.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Service Continuity Comments/Descriptions</b>			
1. The agency has taken steps to prevent and minimize potential damage and interruption through the use of data and program backup procedures including off- site storage of backup data as well as environmental controls, staff training, and hardware maintenance and management.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Control Activities Specific for Information Systems Application Control</b>			
<b>Authorization Control Comments/Descriptions</b>			
1. Source documents are controlled and require authorization.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Data entry terminals have restricted access.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Master files and exception reporting are used to ensure that all data processed are authorized.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Completeness Control Comments/Descriptions</b>			
1. All authorized transactions are entered into and processed by the computer.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Reconciliations are performed to verify data completeness.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<b>Accuracy Control Comments/Descriptions</b>			
1. The agency's data entry design features contribute to data accuracy.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
2. Data validation and editing are performed to identify erroneous data.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
3. Erroneous data are captured, reported, investigated, and promptly corrected.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
4. Output reports are reviewed to help maintain data accuracy and validity.	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

<b>Control Over Integrity of Processing and Data Files Comments/Descriptions</b>			
1. Procedures ensure that the current versions of production programs and data files are used during processing.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Programs include routines to verify that the proper version of the computer file is used during processing.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The application protects against concurrent file updates.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>INFORMATION AND COMMUNICATIONS</b>			
<b>Information Comments/Descriptions</b>			
1. Information from internal and external sources is obtained and provided to management as a part of the agency's reporting on operational performance relative to established objectives.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Pertinent information is identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Communications Comments/Descriptions</b>			
1. Management ensures that effective internal communications occur.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Management ensures that effective external communications occur with groups that can have a serious impact on programs, projects, operations, and other activities, including budgeting and financing.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>MONITORING</b>			
<b>Ongoing Monitoring Comments/Descriptions</b>			
1. Management has a strategy to ensure that ongoing monitoring is effective and will trigger separate evaluations where problems are identified or systems are critical and testing is periodically desirable.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. In the process of carrying out their regular activities, agency personnel obtain information about whether internal control is functioning properly.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Communications from external parties should corroborate internally generated data or indicate problems with internal control.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Data recorded by information and financial systems are periodically compared with physical assets and discrepancies are examined.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. The Inspector General and other auditors and evaluators regularly provide recommendations for improvements in internal control with management taking appropriate follow-up action.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Separate Evaluations Comments/Descriptions</b>			
1. The scope and frequency of separate evaluations of internal control are appropriate for the agency.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. The methodology for evaluating the agency's internal control is logical and appropriate.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Deficiencies found during separate evaluations are promptly resolved.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Audit Resolution. Comments/Descriptions</b> (Audit Resolution includes the resolution of findings and recommendations not just from formal audits, but also resulting from informal reviews, internal separate evaluations, management studies, and assessments made pursuant to the requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982 and the Federal Financial Management Improvement Act (FFMIA) of 1996)			
1. The agency has a mechanism to ensure the prompt resolution of findings from audits and other reviews.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Agency management is responsive to the findings and recommendations of audits and other reviews aimed at strengthening internal control.	<b>Yes</b>	<b>No</b>	<b>N/A</b>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Department of the Interior

\_\_\_\_\_  
Agency

\_\_\_\_\_  
Chief Financial Officer (signature)

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Financial Officer (printed)

## SECTION 2

### EXHIBIT 1

### INTERNAL CONTROL MATRIX

The Internal Control Matrix identifies significant accounts and groups of accounts (financial statement line items) and links to a process. Complete the matrix to identify accounts over the testing materiality and those with qualitative or risk factors.

						Assertions						Control Characteristics					Effectiveness	
Process / Sub-Process	Activity	Control Objective	Risk	Line Item	GL Accounts	Presentation & Disclosure	Existence & Occurrence	Rights & Obligations	Completeness	Valuation	Control #	Control Description	Preventative / Detective	Automated / Manual	Frequency	Categories	Design	Operation
I.A. <u>Financial Reporting</u>																		
Budget and Management Reporting																		
General Ledger Maintenance																		
Accounting Policies and Procedures																		
Account Analysis and Reconciliation	Treasury Report on Receivables (TROR - quarterly) - reconcile w/ SGL debt due from public																	
CFO Reporting																		
External Financial Reporting																		
I.B. <u>Revenue Management</u>																		
Recording Budget Authority																		
Services Provided																		
Collect Advances																		
Interagency Agreements	Biennial Review of User Charges (CFO Act of 1990 requirement). There is an annual cost recovery review requirement but that was imposed by DOI (Accounting Handbook, OMB Circ. A-25 & former DM 346).																	
Reconcile Unfilled Customer Orders																		
I.C. <u>Funds Management</u>																		
Fund Balance with Treasury																		
Cash Receipts and Disbursements	Improper Payment Information Act																	
	Recovery Audits (DOD Authorization Act 2002 Sec. 831)																	
	Government Freight Bills prepayment audits (Travel and Transportation Act of 1998)																	
	Automatic late payment interest and timely payment (Prompt Payment Act of 1982 et seq. & Travel and Transportation Reform Act of 1998)																	
	Required payment via EFT, collection of TINs for all vendor/misc. payment transactions (Debt Collection Improvement Act of 1996)																	
Investments																		

**SECTION 2**  
**EXHIBIT 2**  
**ACCOUNT RISK ANALYSIS**

Account Risk Analysis (adapted from the GAO/PCIE Financial Audit Manual as described in the CFO Council Guide)

ENTITY: XYZ Agency (XYZ) <div style="float: right; text-align: right;"> <b>ACCOUNT RISK ANALYSIS FORM</b> </div>										
PREPARER: _____ DATE OF FINANCIAL STATEMENTS: 9/30/XX <div style="float: right; text-align: right;">           REGION: _____            DATE: _____         </div>										
FILE: _____										
LINE ITEM: Accounts Receivable - Net										
Page ____ of ____										
PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions/Risks	Inherent, Fraud, and Control Risk Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Combined Risk	Timing I/F	Nature & Extent	W/P Ref. & Audit Step
Name	Balance									
<i>Accounts Receivable, Net</i>	<i>\$876,000,000</i>	<b><i>Existence or Occurrence:</i></b>  <i>Recorded accounts receivable do not exist.</i>	<i>No significant inherent, fraud, or control risk factors identified.</i>	<i>Sales/ Billing</i>  <i>Sales Returns</i>  <i>Cash Receipts</i>  <i>Accounts Receivable</i>	<i>Effective</i>  <i>Effective</i>  <i>Effective</i>  <i>Effective</i>	<i>Low</i>	<i>Low</i>	<i>F</i>	<i>Confirm balances and test reconciliation of subsidiary ledger to the general ledger.</i>	<i>III-5 to III7</i>

## Account Risk Analysis (cont.)

ENTITY: XYZ Agency (XYZ)					<b>ACCOUNT RISK ANALYSIS FORM</b>					REGION:
PREPARER: _____ DATE OF FINANCIAL STATEMENTS: 9/30/XX _____ _____					FILE: _____					DATE:
LINE ITEM: Accounts Receivable - Net										
Page ____ of ____										
PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions/Risks	Inherent, Fraud, and Control Risk Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Combined Risk	Timing I/F	Nature & Extent	W/P Ref. & Audit Step
Name	Balance									
		<b>Completeness:</b>  <i>Accounts receivable are not recorded in a timely manner so as to be included in the financial statements.</i>	<i>No significant inherent, fraud, or control risk factors identified.</i>	<i>Sales/ Billing</i>  <i>Sales Returns</i>  <i>Cash Receipts</i>  <i>Accounts Receivable</i>	<i>Effective</i>  <i>Effective</i>  <i>Effective</i>  <i>Effective</i>	<i>Low</i>	<i>Low</i>	<i>F</i>	<i>Perform analytical procedures. Test cut-off.</i>	<i>III-8 to III- 12</i>



# Account Risk Analysis (cont.)

ENTITY: XYZ Agency (XYZ)					<b>ACCOUNT RISK ANALYSIS FORM</b>					
PREPARER: _____ DATE OF FINANCIAL STATEMENTS: 9/30/XX _____ _____ LINE ITEM: Accounts Receivable - Net					REGION: _____ DATE: _____ FILE: _____					
Page ____ of ____										
PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions/Risks	Inherent, Fraud, and Control Risk Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Combined Risk	Timing I/F	Nature & Extent	W/P Ref. & Audit Step
Name	Balance									
		<b>Valuation or Allocation:</b>  <i>Accounts receivable are not valued accurately or on an appropriate basis in the financial statements.</i>	<i>The bankruptcy filing by a major debtor and the financial difficulties of several other debtors in the current economic environment give rise to an inherent risk. No significant fraud or control risk factors identified. .</i>	<i>Sales/ Billing</i>  <i>Sales Return</i>  <i>Cash Receipts</i>  <i>Accounts Receivable</i>	<i>Effective</i>  <i>Effective</i>  <i>Effective</i>  <i>Effective</i>	<i>Low</i>	<i>Moderate</i>	<i>F</i>	<i>Confirm balances (see existence), test the accuracy of the aging, analytically review bad debts and allowance, and examine evidence of collectibility for selected accounts receivable. Discuss with management collectibility from troubled debtors.</i>	<i>III-13 to III18</i>

# Account Risk Analysis (cont.)

<div style="display: flex; justify-content: space-between;"> <div> <p>ENTITY: XYZ Agency (XYZ)</p> <p>PREPARER: _____</p> <p>DATE OF FINANCIAL STATEMENTS: 9/30/XX</p> <p>_____</p> <p>LINE ITEM: Accounts Receivable - Net</p> </div> <div style="text-align: center;"> <p><b>ACCOUNT RISK ANALYSIS FORM</b></p> <p>FILE: _____</p> </div> <div> <p>REGION: _____</p> <p>DATE: _____</p> </div> </div>										
<p>Page ____ of ____</p>										
PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions/Risks	Inherent, Fraud, and Control Risk Factors	Cycle/Accounting Application	Effectiveness of Control Activities	Control Risk	Combined Risk	Timing I/F	Nature & Extent	W/P Ref. & Audit Step
Name	Balance									
		<p><b><i>Rights and Obligations:</i></b></p> <p><i>XYZ does not own unencumbered rights to recorded accounts receivable.</i></p>	<p><i>No significant inherent, fraud, or control risk factors identified.</i></p>	<p><i>Accounts Receivable</i></p>	<p><i>Effective</i></p>	<p><i>Low</i></p>	<p><i>Low</i></p>	<p><i>F</i></p>	<p><i>Identify accounts receivable from related parties or major debtors. Review confirmations for indication of guarantees or encumbrances.</i></p>	<p><i>III-19 to III-22</i></p>

# Account Risk Analysis (cont.)

<div style="display: flex; justify-content: space-between;"> <div> <p>ENTITY: XYZ Agency (XYZ)</p> <p>PREPARER: _____</p> <p>DATE OF FINANCIAL STATEMENTS: 9/30/XX</p> <p>_____</p> <p>LINE ITEM: Accounts Receivable - Net</p> </div> <div style="text-align: center;"> <p><b>ACCOUNT RISK ANALYSIS FORM</b></p> <p>FILE: _____</p> </div> <div> <p>REGION: _____</p> <p>DATE: _____</p> </div> </div>										
<div style="display: flex; justify-content: space-between;"> <p>Page ____ of ____</p> </div>										
PLANNING PHASE					INTERNAL CONTROL PHASE			TESTING PHASE		
Account		Financial Statement Assertions/Risks	Inherent, Fraud, and Control Risk Factors	Cycle/ Accounting Application	Effectiveness of Control Activities	Control Risk	Combined Risk	Timing I/F	Nature & Extent	W/P Ref. & Audit Step
Name	Balance									
		<p><b>Presentation and Disclosure:</b></p> <p><i>Accounts receivable are not properly classified or disclosed in the financial statements, nor are they based on a consistent application of accounting principles.</i></p>	<p><i>No significant inherent, fraud, or control risk factors identified.</i></p>	<p><i>Accounts Receivable</i></p>	<p><i>Effective</i></p>	<p><i>Low</i></p>	<p><i>Low</i></p>	<p><i>F</i></p>	<p><i>Determine appropriateness of footnote disclosures. Summarize and test credit risk disclosures. Review accounting principles used.</i></p>	<p><i>III-23 to III-25, IV-16</i></p>
Line Item Total	\$876,000,000									

**SECTION 2**  
**EXHIBIT 3**  
**SPECIFIC CONTROL EVALUATION WORKSHEET**

Specific Control Evaluation Worksheet (adapted from the GAO/PCIE Financial Audit Manual) (obtained from the Specific Control Evaluation Worksheet (SCE) from the GAO/PCIE Financial Audit Manual as described in the CFO Council Guide)

ENTITY: <i>XYZ Agency (XYZ)</i>			<b>SPECIFIC CONTROL EVALUATION</b>					
PREPARER: _____			FILE: _____			REGION: _____		
DATE OF FINANCIAL STATEMENTS: <i>9/30/XX</i>						DATE: _____		
_____								
LINE ITEM: Accounts Receivable - Net								
Page ____ of ____								
ACCOUNTING APPLICATION: CASH RECEIPTS								
ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	CONTROL OBJECTIVES	INTERNAL CONTROL ACTIVITIES	IS (Y/N)	EFFECTIVE NESS OF CONTROL ACTIVITIES	W/P REF. & CONTROL TESTING PROGRAM STEP
	<i>Cash</i>	<i>Accts. Rec.</i>						



## Specific Control Evaluation Worksheet (cont.)

ENTITY: XYZ Agency (XYZ)		<b>SPECIFIC CONTROL EVALUATION</b>						
PREPARER: _____								
DATE OF FINANCIAL STATEMENTS: 9/30/XX		REGION: _____						
_____		FILE: _____						
_____		DATE: _____						
LINE ITEM: Accounts Receivable - Net								
Page ____ of ____								
ACCOUNTING APPLICATION: CASH RECEIPTS								
ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	CONTROL OBJECTIVES	INTERNAL CONTROL ACTIVITIES	IS (Y/N)	EFFECTIVE NESS OF CONTROL ACTIVITIES	W/P REF. & CONTROL TESTING PROGRAM STEP
	<i>Cash</i>	<i>Accts. Rec.</i>						
			Cutoff: 2. Receipt is recorded in this period, but the cash is received in a different period.	2. Cash receipts recorded in the period should be actually received in the period.	2. Recorded receipts are reconciled to cash receipts listings and bank deposits reports before posting.	Y	Effective	
			Summarization: 3. Receipt transactions are overstated due to improper summarization.	3. The summarization of receipt transactions should not be overstated.	3a. Receipt data in the general ledger is reconciled to subsidiary cash ledgers and records.	Y	Effective	
					3b. Batch totals of input documents are reconciled to output registered, journals, reports, or file updates.	Y		

### Specific Control Evaluation Worksheet (cont.)

[illegible]

### Specific Control Evaluation Worksheet (cont.)

ENTITY: XYZ Agency (XYZ)	SPECIFIC CONTROL EVALUATION							
PREPARER: _____								
DATE OF FINANCIAL STATEMENTS: 9/30/XX		REGION: _____						
_____	FILE: _____	DATE: _____						
LINE ITEM: Accounts Receivable - Net								
Page ____ of ____								
ACCOUNTING APPLICATION: CASH RECEIPTS								
ACCOUNTING APPLICATION ASSERTION	RELEVANT ASSERTIONS IN RELATED GROUPS OF ACCOUNTS		POTENTIAL MISSTATEMENT IN ACCOUNTING APPLICATION ASSERTIONS	CONTROL OBJECTIVES	INTERNAL CONTROL ACTIVITIES	IS (Y/N)	EFFECTIVE NESS OF CONTROL ACTIVITIES	W/P REF. & CONTROL TESTING PROGRAM STEP
	Cash	Accts. Rec.						
<i>Valuation</i>	<i>Valuation</i>	<i>Valuation</i>	<i>Accuracy: 7. Receipt transactions are recorded at incorrect amounts.</i>	<i>7. Receipt transactions should be recorded accurately</i>	<i>7a. Recorded receipts are compared with bank statements by persons who have no other receipts processing responsibilities.  7b. Supervisor reviews and approves reconciliations of recorded receipts to bank statements.</i>	<i>Y</i>  <i>N</i>	<i>Effective</i>	
<i>Segregation of Duties</i>	<i>Various</i>	<i>Various</i>	<i>Segregation: 8. The entity is exposed to loss of cash receipts and various misstatements as the result of inadequate segregation of duties.</i>	<i>8. Persons should be prevented from having uncontrolled access to both cash receipts and records.</i>	<i>8a. No individual has uncontrolled access (direct or indirect) to both cash receipts and records.</i>	<i>N</i>	<i>Effective</i>	

Preparation Notes:

- The third column is for use where the effects of the accounting application on the line items are different. For example, misstatements in the existence or occurrence assertion for cash receipts typically result in misstatements in the existence or occurrence assertion for cash and in the completeness assertion for accounts receivable.
- If there is inadequate segregation of duties, the manager should identify the specific affected account assertions in columns 2 and 3.



**SECTION 2**  
**EXHIBIT 4**  
**ILLUSTRATIVE TEMPLATE FOR A DESIGNATED SENIOR OFFICIAL TO THE**  
**AGENCY HEAD**

Memorandum

To: Assistant Secretary - Policy, Management and Budget  
Attention: Director, Office of Financial Management

Through: Assistant Secretary

From: Bureau/Office Head

Subject: FY 200X Annual Assurance Statement on Internal Control over Financial Reporting

In accordance with your delegation of responsibilities to me, I have directed an evaluation of the internal control over financial reporting of [bureau/office] in effect during the year ended June 30, 200X. This evaluation was conducted in accordance with departmental guidance and OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004.

In evaluating internal control over financial reporting at [bureau/office], I directed my staff to:

- Identify the financial reports that have a material effect on [bureau/office's] financial decisions
- Identify the accounts in each selected report that are material to the report
- Identify the transaction cycles that generate the information for these accounts
- Document and obtain an understanding of those transaction cycles
- Evaluate the agency's control environment, risk assessment process, information and communication processes, and monitoring process
- Identify the control activities in each transaction cycle
- Assess the design of the controls to determine whether they would prevent or detect errors or misstatements in the selected financial statements
- Test the controls that are considered suitably designed and assess whether they are functioning as designed.

Based on the results of this evaluation, the [bureau/office] may provide reasonable assurance that internal control over financial reporting as of June 30, 2xxx, was operating effectively, **with the exception of the following material weakness(es) that was (were) found in the design or operation of the internal controls over financial reporting.**

- **Insert title(s) and description(s) of material weakness(es)**

[Or, if an unqualified assurance statement may be made, replace the bolded statement above with the following: "and no material weaknesses were found in the design or operation of the internal controls over financial reporting."]

Name of Designated Senior Official

**SECTION 2**  
**EXHIBIT 5A**  
**ILLUSTRATIVE TEMPLATE FOR A STATEMENT OF ASSURANCE**

Memorandum

To: Assistant Secretary - Policy, Management and Budget  
Attention: Director, Office of Financial Management

Through: Assistant Secretary

From: Bureau/Office Head

Subject: FY 200X Annual Assurance Statement on Internal Control

The [bureau/office] management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The [bureau/office] conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with departmental guidance and OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. The objectives of this assessment are to ensure that:

- Programs achieve their intended results;
- Resources are used consistent with agency mission;
- Resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable and timely information is maintained, reported, and used for decision-making.

In performing this assessment, the [bureau/office] relied on the knowledge and experience management has gained from the daily operation of its programs and systems of accounting and administrative controls, and information obtained from sources such as internal control assessments, OIG and GAO audits, program evaluations and studies, audits of financial statements, and performance plans and reports. The following specific internal control assessments conducted by the bureau, and audits and/or reviews conducted by the OIG and/or GAO were relied upon to support the conclusions expressed herein.

		Results
Assessment /Audit	Date Completed	(Material Weakness or Best Practice)
(List or attach list)		
Name of Designated Senior Official		

### **Statement of Unqualified Assurance (con't)**

Based on the results of the evaluation, the [bureau/office] can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 200X was operating effectively and no material weaknesses were found in the design or operation of the internal controls.

In addition, the [bureau/office] conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the [bureau/office] can provide reasonable assurance that its internal control over financial reporting as of June 30, 200X was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The corrective action reports for material weaknesses and/or accounting system non-conformances identified in the FY 200X assessment, or carried over from the prior fiscal year, are attached. These reports identify the nature of the weakness or non-conformance, its cause and effect, appropriate interim milestones in the corrective action plan, progress to date, metrics used to measure progress and insure correction, the funds set aside to correct the weakness, and the individuals, including field officials, accountable for the timely completion of stated corrective actions. (If any material weakness corrective action plan targeted for completion in FY 200X was not completed as planned, please report the reasons for the slippage and a summary of what actions remain.) The existence of these material weaknesses or accounting system non-conformances does/does not prevent the [bureau/office] from providing reasonable assurance on the effectiveness of its internal control taken as a whole.

I also conclude that the [bureau/office's] information technology systems generally comply/do not generally comply with the requirements of the Federal Information Security Management Act (FISMA), and Appendix III of OMB Circular A-130, Management of Federal Information Resources.

Further, I conclude that the [bureau/office] substantially complies/does not substantially comply with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

Attachments

**SECTION 2**  
**EXHIBIT 5B**  
**ILLUSTRATIVE TEMPLATE FOR A QUALIFIED STATEMENT OF ASSURANCE**

Memorandum

To: Assistant Secretary - Policy, Management and Budget  
Attention: Director, Office of Financial Management

Through: Assistant Secretary

From: Bureau/Office Director

Subject: FY 200X Annual Assurance Statement on Internal Control

The [bureau/office] management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The [bureau/office] is able to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, with the exception of [number] material weakness(es) and [number] non-conformance(s). The details of the exception(s) are provided in Exhibit [xx].

The [bureau/office] conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with departmental guidance and OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. The objectives of this assessment are to ensure that:

- Programs achieve their intended results;
- Resources are used consistent with agency mission;
- Resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable and timely information is maintained, reported, and used for decision-making.

In performing this assessment, the [bureau/office] relied on the knowledge and experience management has gained from the daily operation of its programs and systems of accounting and administrative controls, and information obtained from sources such as internal control assessments, OIG and GAO audits, program evaluations and studies, audits of financial statements, and performance plans and reports. The following specific internal control assessments conducted by the bureau, and audits and/or reviews conducted by the OIG and/or GAO were relied upon to support the conclusions expressed herein.

		Results
Assessment /Audit	Date Completed	(Material Weakness or Best Practice)
(List or attach list)		

### **Statement of Qualified Assurance (con't)**

Based on the results of the evaluation, the [bureau/office] identified [number] material weakness(es) in its control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 200X. Other than the exceptions noted in Exhibit [xx], the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, the [bureau/office] conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, the [bureau/office] can provide reasonable assurance that its internal control over financial reporting as of June 30, 200X was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The corrective action reports for material weaknesses and/or accounting system non-conformances identified in the FY 200X assessment, or carried over from the prior fiscal year, are attached. These reports identify the nature of the weakness or non-conformance, its cause and effect, appropriate interim milestones in the corrective action plan, progress to date, metrics used to measure progress and insure correction, the funds set aside to correct the weakness, and the individuals, including field officials, accountable for the timely completion of stated corrective actions. (If any material weakness corrective action plan targeted for completion in FY 2005 was not completed as planned, please report the reasons for the slippage and a summary of what actions remain.) The existence of these material weaknesses or accounting system non-conformances does/does not prevent the [bureau/office] from providing reasonable assurance on the effectiveness of its internal control taken as a whole.

I also conclude that the [bureau/office's] information technology systems generally comply/do not generally comply with the requirements of the Federal Information Security Management Act (FISMA, and Appendix III of OMB Circular A-130, Management of Federal Information Resources.

Further, I conclude that the [bureau/office] substantially complies/does not substantially comply with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

Attachments

**SECTION 2**  
**EXHIBIT 5C**  
**ILLUSTRATIVE TEMPLATE WHEN CANNOT PROVIDE A STATEMENT OF**  
**ASSURANCE**

Memorandum

To: Assistant Secretary - Policy, Management and Budget  
Attention: Director, Office of Financial Management

Through: Assistant Secretary

From: Bureau/Office Director

Subject: FY 2006 Annual Assurance Statement on Internal Control

The [bureau/office] management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA). The [bureau/office] is unable to provide a qualified statement of assurance that the internal controls and financial management systems meet the objectives of FMFIA, due to the [number] material weakness(es) and [number] non-conformance(s) listed in Exhibit [xx].

The [bureau/office] conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with departmental guidance and OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. The objectives of this assessment are to ensure that:

- Programs achieve their intended results;
- Resources are used consistent with agency mission;
- Resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable and timely information is maintained, reported, and used for decision-making.

In performing this assessment, the [bureau/office] relied on the knowledge and experience management has gained from the daily operation of its programs and systems of accounting and administrative controls, and information obtained from sources such as internal control assessments, OIG and GAO audits, program evaluations and studies, audits of financial statements, and performance plans and reports. The following specific internal control assessments conducted by the bureau, and audits and/or reviews conducted by the OIG and/or GAO were relied upon to support the conclusions expressed herein.

Assessment /Audit	Date Completed	Results (Material Weakness or Best Practice)
(List or attach list)		

### **Statement of No Assurance (con't)**

Based on the results of the evaluation, the [bureau/office] identified [number] material weakness(es) in its control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 200X. Other than the exceptions noted in Exhibit [xx], the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal controls.

In addition, the [bureau/office] conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The [bureau/office] did not fully implement the requirements included in OMB Circular A-123 and therefore cannot provide assurance that its internal control over financial reporting as of June 30, 2xxx was operating effectively. A summary of actions the [bureau/office] will take to comply with the Circular A-123 requirements is included in Exhibit [xx].

The corrective action reports for material weaknesses and/or accounting system non-conformances identified in the FY 2005 assessment, or carried over from the prior fiscal year, are attached. These reports identify the nature of the weakness or non-conformance, its cause and effect, appropriate interim milestones in the corrective action plan, progress to date, metrics used to measure progress and insure correction, the funds set aside to correct the weakness, and the individuals, including field officials, accountable for the timely completion of stated corrective actions. (If any material weakness corrective action plan targeted for completion in FY 2005 was not completed as planned, please report the reasons for the slippage and a summary of what actions remain.) The existence of these material weaknesses or accounting system non-conformances does/does not prevent the [bureau/office] from providing reasonable assurance on the effectiveness of its internal control taken as a whole.

I also conclude that the [bureau/office's] information technology systems generally comply/do not generally comply with the requirements of the Federal Information Security Management Act (FISMA), and Appendix III of OMB Circular A-130, Management of Federal Information Resources.

Further, I conclude that the [bureau/office] substantially complies/does not substantially comply with the three components of the Federal Financial Management Improvement Act (FFMIA): Financial system requirements, Federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

Attachments